



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

**ACTING ASSISTANT INSPECTOR GENERAL
FOR AUDIT**

April 8, 1998

MEMORANDUM

TO: Dr. David A. Longanecker
Assistant Secretary Office of Postsecondary Education

FROM: Robert G. Seabrooks
Deputy Assistant Inspector General for Audit

SUBJECT: Quality Control Reviews of Audits Performed By High Volume Independent Public Accountants (IPAs) Conducting SFA Audits For The Fiscal Year Ended June 30, 1995.

The purpose of this memorandum is to report the results of our Quality Control Reviews (QCRs) of audit working papers prepared by 36 Independent Public Accountant's (IPAs) submitting a substantial portion of the Student Financial Aid (SFA) Audits for the fiscal year (FY) ended June 30, 1995. We performed a total of 75 QCRs (See Attachment A) of FY 95 SFA Audits conducted by these 36 IPAs. These IPAs audit approximately 24 percent of the proprietary schools and 4.6 percent of the total non-campus-based dollars awarded to all institutions. The primary purpose of our QCRs was to evaluate the quality of the audits by reviewing the auditors' working papers for adherence to requirements set forth in our June 1995 SFA Audit Guide, American Institute of Certified Public Accountants (AICPA) Attestation Standards, and Government Auditing Standards.

Summary Results

Our reviews identified serious audit quality problems with the audits on which your office is placing reliance. For the 75 QCRs performed, we found that 44, or approximately 59 percent of the audits reviewed were considered to be substandard (audit work did not meet auditing standards or audit guide requirements) or contained significant inadequacies (work performed rendered the report issued to be unreliable). The primary reason for the high number of deficient audits was due to IPA's failing to obtain "Management Representations" as required by professional attestation standards. The purpose of these representations are to ensure that Management asserts its responsibility and accountability for compliance with applicable Federal laws and regulations. Failure to obtain the required representations was fairly widespread among IPA firms reviewed. As such, we decided not to reject the audits solely for this reason. Instead, we have issued a 'Dear CPA' letter to inform other IPA's about this widespread problem. We intend to conduct follow-up QCRs of these auditors to

identify whether this continues to be a problem.

We identified other audit deficiencies relating to: Engagement Letters; Refunds; Institutional Eligibility; and Student Eligibility as discussed later. We have summarized the overall results for the 75 QCRs performed as follows: 10 audits were acceptable, 21 audits contained minor audit deficiencies, 31 audits were considered substandard, and 13 audits contained significant inadequacies in the performance of the attestation engagement. Attachment B provides complete definitions of the terms we have used to categorize our QCR results.

For each of the SFA Audits where we noted audit deficiencies, we issued a letter to the IPA with specific recommendations for corrective action. Copies of these letters were provided to the Office of Postsecondary Education/Data Management & Analysis Division (OPE/DMAD). Our recommendations included having the IPA: 1) Consider specific actions on all future SFA audit engagements; 2) Perform additional audit procedures for the audit reviewed; and 3) Correct audit deficiencies and submit a revised audit report to the Department. As noted in the next section, we will continue to monitor these and other audits submitted to the Department.

OIG Follow-Up Efforts

We will continue to monitor the status of the audits for which we are recommending corrective action and keep OPE/DMAD apprised. In addition, we are currently in the process of arranging for the review of audit working papers covering the fiscal year 1996 (or 1997 if received by the Department) audits for the IPAs where we identified substandard or significant inadequacies in their audit performance. Other SFA as well as Lender audits have been selected for a QCR during fiscal year 1998. We plan to inform you of the results of these reviews when completed. We will review the audit working papers of "High Volume" IPAs on a continual basis, given that they audit a significant amount of dollars awarded (41 percent) to proprietary schools.

QCR Sample Methodology

We judgmentally selected 75 fiscal year 1995 SFA audits performed by 36 "High Volume"¹ IPAs for a QCR of the audit working papers. These 36 IPAs performed a total of 1,145 of 4,698² (24 percent) SFA audits submitted for fiscal year 1995. We were concerned with the quality of audit work performed by these "High Volume" IPAs due to the significant impact that noted audit deficiencies, if any, could have on the number of SFA audits for which the Department is placing reliance.

¹We have defined the term "High Volume", as applying to IPAs who had performed 10 or more SFA audits for either fiscal year 1994 or 1995.

²Data extracted from the Postsecondary Education Participants System (PEPS). We did not verify the accuracy of this data.

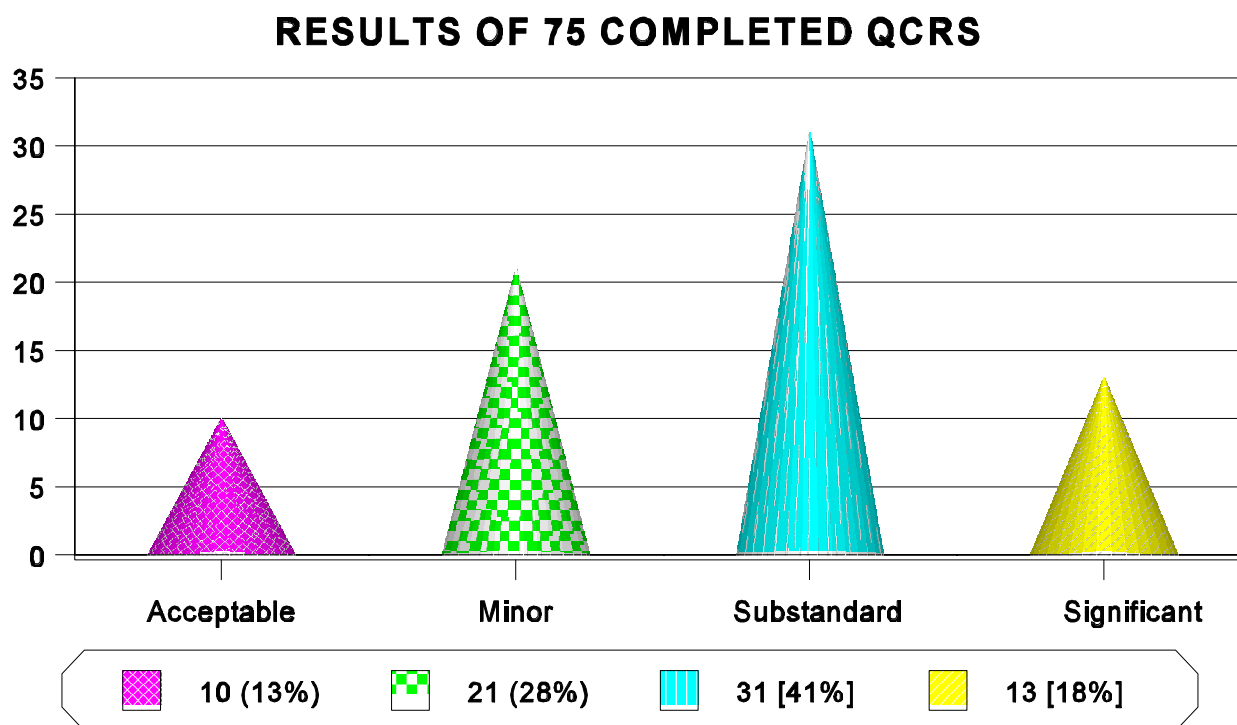
Total fiscal year 1995 SFA funding (excluding Campus Based Programs) provided to the 75 Institutions whose audits we selected for a QCR was \$189,952,756³. The fiscal year 1995 SFA funding for all Institutions audited by these 36 High Volume IPAs was approximately \$1.3 billion⁴.

Referral For Disciplinary Action

For the 13 audits where we identified significant inadequacies, we have, or are in the process of referring the IPAs to the appropriate State Board of Accountancy and to the AICPA for possible disciplinary action. When a referral is received by the AICPA and/or a State Board, they will usually evaluate the seriousness of the audit deficiencies presented and determine the appropriate course of action to take against the IPA. These actions include admonishment, requiring the IPA to receive additional Continued Professional Education (CPE), or forfeiture of CPA certificates/licenses.

The following table provides a graphical depiction of the overall results of our QCRs, including the percentage that each overall results category represents to the total QCRs performed.

Analysis of Audit Deficiencies



³Data extracted from the National Student Loan Data System (NSLDS). We did not verify the accuracy of this data.

⁴See footnote 3 herein.

We performed an analysis of the types of audit deficiencies found on these audits. The most frequent audit deficiency noted was that the IPAs were not obtaining the required "Management Representations" as required by the SFA Audit Guide and AICPA Statement on Standards for Attestation Engagements (SSAE) No. 3. Two of these representations are particularly significant, since they are a precondition for performance of the attestation engagement as set forth in SSAE No. 3. Other more frequent audit deficiencies are related to the Audit Engagement Letter, Institutional Eligibility & Participation, Refunds, and Student Eligibility.

We have prepared a list of the most frequent audit deficiencies (10 or more) identified, including the number of audits where these deficiencies were found (Attachment C). We have also published a "Dear CPA Letter" on our ED/OIG Non-Federal Audit Team Web Page (<http://home.gvi.net/~edoig>) in order to alert other IPAs of these frequent audit deficiencies.

Attachments (3)

cc: Pat Trubia, OPE/DMAD
Linda Paulsen, OPE/AFMS
Charles Miller, OCFO/PAG
Diane Rogers, OPE
Jean VanVlandren, OPE

LIST OF HIGH VOLUME IPA's/1995 SFA AUDITS SELECTED FOR QCR SORTED BY IPA NAME

<u>CPA FIRM</u>	<u>CITY</u>	<u>ST</u>	<u>AUDITEE</u>	<u>FY AUDIT</u>	<u>ACN</u>
ALMICH & ASSOCIATES	NEWPORT BEACH	CA	NATL EDUCATION CENTER	06/30/95	09-95-64198
ALMICH & ASSOCIATES	NEWPORT BEACH	CA	COLEMAN COLLEGE	06/30/95	09-95-64069
ARTHUR ANDERSEN & CO	PHOENIX	AZ	AMERICAN TELLER SCHLS OF AZ	06/30/95	09-95-64087
ARTHUR ANDERSEN & CO	PHOENIX	AZ	INTERNATIONAL BUSINESS COLG	06/30/95	06-95-64014
BARRY GLASSER	WESTLAKE VILLAG	CA	ASIAN AMER. INT. BEAUTY COL.	06/30/95	09-95-60119
BARRY GLASSER	WESTLAKE VILLAG	CA	GANAYE ACDMY OF COSMETOLOGY	06/30/95	09-95-64162
BIRNBREY MINSK & MINSK	ATLANTA	GA	BROWN COL OF COURT REPORTING	06/30/95	04-95-64302
BIRNBREY MINSK & MINSK	ATLANTA	GA	NATL BUSINESS INST	06/30/95	04-95-64063
BORCHARDT CORONA & CO	FRESNO	CA	SIERRA VALLEY BUSINESS COLG	06/30/95	09-95-64019
DANIEL G FALK & ASSOCIATES	SILVER SPRING	MD	APPLIED CAREER TRAINING	06/30/95	03-95-64101
DANIEL G FALK & ASSOCIATES	SILVER SPRING	MD	AMERICAN FLYERS COLLEGE	06/30/95	04-95-64173
DANIEL G FALK & ASSOCIATES	SILVER SPRING	MD	UNIV OF COSMETOLOGY ARTS	06/30/95	06-95-64065
DAVID A LEVY & COMPANY	BOSTON	MA	NEWPORT SCHL OF HAIRDRESSING	06/30/95	01-95-64107
DAVID A LEVY & COMPANY	BOSTON	MA	BUTERA SCHL OF ART	06/30/95	01-95-64003
D.H. WILSCHANSKI	LAKEWOOD	NJ	YESHIVA GEDOLA OF GRTR DET	06/30/95	05-95-64211
D.H. WILSCHANSKI	LAKEWOOD	NJ	CENTRAL YESHIVA TOMCHEI TMIMIN	06/30/95	02-95-64115
DIXON ODOM & CO	HIGH POINT	NC	CAROLINA BEAUTY COLG	06/30/95	04-95-64182
DIXON ODOM & CO	HIGH POINT	NC	APEX TECHL SCHL	06/30/95	02-95-64039
DORIS A MCCLANAHAN, CPA	ROME	GA	INTERNATIONAL EDUCATION CNTR	06/30/95	04-95-64117
DORIS A MCCLANAHAN, CPA	ROME	GA	WEST TENNESSEE BUSINESS COLG	06/30/95	04-95-64245
EPSTEIN WOODS & DWYER	PHOENIX	AZ	CAD INST	06/30/95	09-95-64047
EPSTEIN WOODS & DWYER	PHOENIX	AZ	MUNICIPAL TRAINING CENTER	06/30/95	02-95-64230
FROEHLE & CO	FRANKLIN	OH	KEISER COLG OF TECHLGY	06/30/95	04-95-64293
FROEHLE & CO	FRANKLIN	OH	PENNSYLVANIA BUSINESS INST	06/30/95	03-95-64130
GEORGE E. MILHIM & CO	HEMPSTEAD	NY	LEARNING INST FOR BEAUTY	06/30/95	02-95-64064
GEORGE E. MILHIM & CO	HEMPSTEAD	NY	NEW HORIZONS INST OF COSMETOL	06/30/95	02-95-64018
GLARNER & CO	NEW KENSINGTON	PA	CAMBRIA ROWE BUSINESS COLG	06/30/95	03-95-64092
GLARNER & CO, PC	NEW KENSINGTON	PA	DUBOIS BUSINESS COLG	06/30/95	03-95-64003
GORDON ALDEN & CO, CPAS	JACKSONVILLE	FL	WEBSTER TECHL	06/30/95	04-95-64107
GORDON ALDEN & CO, CPAS	JACKSONVILLE	FL	WEST VIRGINIA CAREER COLG	06/30/95	03-95-64091
GROSS & KIMBALL	DALLAS	TX	NEILSON BEAUTY COLG	06/30/95	06-95-64078
GROSS & KIMBALL	DALLAS	TX	SOUTHERN CAREERS INST	06/30/95	06-95-64114
HARVEY R. GLICK	SCARSDALE	NY	BLANTON PEALE GRADUATE INST	06/30/95	02-95-64127
HARVEY R. GLICK	SCARSDALE	NY	EMPIRE BEAUTY SCHL	06/30/95	03-95-64178
HAVERN BEHRENS HEIM & BYFO	OKLAHOMA CITY	OK	NORTHWESTERN BEAUTY ACADEMY	06/30/95	06-95-64050
HAVERN BEHRENS HEIM & BYFO	OKLAHOMA CITY	OK	BROKEN ARROW BEAUTY COLG	06/30/95	06-95-64121

ATTACHMENT A

(2 of 2)

<u>CPA FIRM</u>	<u>CITY</u>	<u>ST</u>	<u>AUDITEE</u>	<u>FY AUDIT</u>	<u>ACN</u>
HILLS, RENAUT, HOMEN & HUGH	FRESNO	CA	LAWTON SCHL FOR MED & DENTAL	06/30/95	09-95-64048
HILLS, RENAUT, HOMEN & HUGH	FRESNO	CA	DICKINSON WARREN BUSINESS COL	06/30/95	09-95-64132
HOLMAN & COMPANY	CLINTON	MS	PUEBLO COLLEGE OF BUS. & TECH	06/30/95	08-95-64024
HOLMAN & COMPANY	CLINTON	MS	MACON BEAUTY SCHL	06/30/95	04-95-64270
JERRY W WANGSNESS & ASSOC	GLENWOOD	MN	GLOBE COLLEGE OF BUSINESS, INC	06/30/95	05-95-64319
JERRY W WANGSNESS & ASSOC	GLENWOOD	MN	RASMUSSEN BUSINESS COLLEGE	06/30/95	05-95-64247
JOHN P. TONKINSON	SOUTHINGTON	CT	SUBURBAN TECHL SCHL	06/30/95	02-95-64095
JOHN P. TONKINSON	SOUTHINGTON	CT	DOVER BUSINESS COLG	06/30/95	02-95-64159
JOHN P. TONKINSON	SOUTHINGTON	CT	WATERSON COLLEGE	06/30/95	02-95-64195
JOHNSTON SILVIO & COMPANY	BATON ROUGE	LA	AYERS INST	06/30/95	06-95-64124
JOHNSTON SILVIO & COMPANY	BATON ROUGE	LA	GADSDEN BUSINESS COLG	06/30/95	04-95-64045
JUAN A FELICIANO CHARNECO	HATO RAY	PR	INST DE COSMETOLOGIA Y ESTETICA	06/30/95	02-95-64052
JUAN A FELICIANO CHARNECO	HATO RAY	PR	ACADEMIA SINGER DEALER AUTH	06/30/95	02-95-64109
KESSLER ORLEAN SILVER & CO	NILES	IL	AMERICAN ACDMY OF ART	06/30/95	05-95-64252
KESSLER ORLEAN SILVER & CO	NILES	IL	WRIGHT BEAUTY COLLEGE	06/30/95	05-95-64239
KNUTTE & ASSOCIATES	DARIEN	IL	TIFFIN ACADEMY OF HAIR DESIGN	06/30/95	05-95-64223
KNUTTE & ASSOCIATES	DARIEN	IL	HAIR PROFESSIONALS ACAD OF COS	06/30/95	05-95-64146
MASSIE FUDEMBERG GOLDBERG	ST. LOUIS	MO	AL MEDICAL ACADEMY	06/30/95	07-95-64030
MASSIE FUDEMBERG GOLDBERG	ST. LOUIS	MO	PARIS II EDUCATIONAL CENTER	06/30/95	07-95-64037
MCCLINTOCK AND ASSOCIATES	BRIDGEVILLE	PA	KINGS COLLEGE	06/30/95	04-95-64092
MCCLINTOCK AND ASSOCIATES	BRIDGEVILLE	PA	WHEELING COLG OF HAIR DESIGN	06/30/95	03-95-64034
ROGER B. HIMMELL	DAYTON	OH	BOHECKER'S BUSINESS COLLEGE	06/30/95	05-95-64105
ROGER B. HIMMELL	DAYTON	OH	OHIO STATE BEAUTY ACDMY	06/30/95	05-95-64330
SALMON BEACH & COMPANY	DALLAS	TX	ATI CAREER TRAINING CENTER	6/30/95	04-95-64087
SALMON BEACH & COMPANY	DALLAS	TX	INTERNATIONAL BEAUTY COLG #3	06/30/95	06-95-64011
SCHUMACHER & ASSOC	ENGLEWOOD	CO	WRIGHT BEAUTY ACADEMY	06/30/95	08-95-64035
SCHUMACHER & ASSOC	ENGLEWOOD	CO	BOULDER SCHOOL OF MASGE THER	06/30/95	08-95-64042
TOBACK CPAS, P.C.	PHOENIX	AZ	APOLLO COLLEGE	06/30/95	09-95-64121
TOBACK CPAS, P.C.	PHOENIX	AZ	WESTERN INTERNATIONAL UNIV	06/30/95	09-95-64117
VIVIAN DOWNS	BETHESDA	MD	ROBERTS INST. OF HAIR DESIGN	06/30/95	03-95-64232
VIVIAN DOWNS	BETHESDA	MD	TRADITIONAL ACUPUNCTURE INST.	06/30/95	03-95-64185
VIVIAN DOWNS	BETHESDA	MD	MARYLAND COLLEGE OF ART	06/30/95	03-95-64148
VIVIAN DOWNS	BETHESDA	MD	AWARD BUEATY SCHOOL	06/30/95	03-95-64147
WEST & COMPANY	OKLAHOMA CITY	OK	COLORADO SCHOOL OF TRADES	06/30/95	08-95-64029
WEST & COMPANY	OKLAHOMA CITY	OK	STEVENS HENAGER COL OF BUS.	06/30/95	08-95-64060
WEWORSKI & ASSOCIATES	SAN DIEGO	CA	LAMSON JUNIOR COLG	06/30/95	09-95-64127
WEWORSKI & ASSOCIATES	SAN DIEGO	CA	DUFFS BUSINESS INST	06/30/95	03-95-64225
WRIGHT KING & COMPANY	HATTIESBURG	MS	OMNI TECH SCHOOL	06/30/95	04-95-64001
WRIGHT KING & COMPANY	HATTIESBURG	MS	AVANTI HAIR TECH	06/30/95	04-95-64350

DEFINITIONS - AUDIT QUALITY

Audit - Acceptable

No audit deficiencies or violations of standards were identified.

Audit - Minor Deficiencies

Minor deficiencies are violations of an insignificant nature which results in little or no effect on the reliability of the audit report. For minor deficiencies, IPAs are usually informed of the violations at the exit conference with the recommendation to correct on future engagements.

Audit - Substandard Performance

Substandard performance is inadequate work of a serious nature which results in a report of diminished reliability but which does not render the audit report totally unreliable. Substandard performance requires major changes or the correction of major deficiencies in the audit work. Repetitive instances of substandard performance should be referred to appropriate professional and/or regulatory bodies.

Audit - Significant Inadequacies

Significant inadequacies in audit work are inadequacies which make the audit report so pervasively unreliable that users cannot rely on the report. Referrals to State Board's of Accountancy and the AICPA should normally be made when significant inadequacies are identified during a QCR.

**Most Frequent Audit Deficiencies
(Found on 10 or more audits)
On QCRs Performed of High Volume IPAs
For 1995 SFA Audits**

# of Audits Containing Deficiency	Description of Audit Deficiency
Management Representations	
	IPA did not receive representation:
29	Stating that Management has performed an evaluation of internal controls and compliance with specified requirements.
18	Acknowledging management's responsibility for establishing and maintaining an effective internal control structure over compliance.
14	Stating that management has notified the Department of any bankruptcy filing involving the institution or its parent corporation.
13	Stating that the owner, or its chief executive officer, has not pled guilty to, has not pled <i>nolo contendere</i> to, or was not found guilty of a crime involving Title IV funds.
12	Stating that management has made available all documentation related to compliance with specified requirements.
Engagement Letter	
19	Letter did not include a statement that both parties understand that the Department intends to use the IPA's report to help carry out its oversight responsibilities of the Title IV programs.
Refunds	
16	Audit working papers did not evidence that the IPA reviewed, evaluated, and documented procedures for identifying that students either were, or should have been withdrawn, dropped, terminated or who are on a leave of absence.
10	Audit working papers did not evidence that the IPA determined which refund method produced the largest refund and assured that pro rata refund calculations are used for all first time students who withdraw on or before 60% of the course was completed.
Institutional Eligibility	
12	Audit working papers did not evidence that the IPA reviewed, evaluated, and documented the institution's methodologies for determining compliance with institutional eligibility and participation criteria.

Student Eligibility

- 11 Audit working papers did not evidence that the IPA reviewed, evaluated, and documented the institution's methodologies for determining student eligibility, including control procedures for administering ability to benefit tests and the above specific eligibility requirements.

We identified several additional audit deficiencies that were not as prevalent as the deficiencies noted above.